

CHAPTER 19

PROPERTY MANAGEMENT

Purpose of this chapter: To provide information about how to manage and dispose of CDBG -funded property.

Overview: Grantees must comply with the federal requirements for the management and disposition of property acquired in whole or part with CDBG funds. The treatment and disposition of property purchased with CDBG funds will depend on its type. Property is either real or personal.

Outline of topics: Real property
Personal property
Intangible property
Control and inventory

Real property: Real property means land, including improvements to the land, structures, and appurtenances. Real property does not include moveable machinery and equipment. Whenever property is acquired in whole or part with State CDBG funds, the requirements of the State Relocation Assistance Act and Relocation and Real Property Acquisition Guidelines must be followed (see Chapter 6 for information on relocation).

Unless otherwise provided in the grantee's contract (which includes the application), title to real property shall vest in the jurisdiction subject to the condition that the property is used as long as it is needed for the original purpose of the grant. If the grantee determine that the property is no longer needed for its original purpose, the grantee must follow the directions stated in 24 CFR 570.505 of the HUD CDBG Regulations. (Or if a non -profit is proposing to dispose of real property, it must follow 24 CFR 570.503 of the HUD CDBG regulation.)

Disposition of real property. When the grantee no longer needs the property, the grantee should contact the Department in writing for disposition instructions unless disposition is covered in the state contract. The following options are available for disposition:

1. Retain title after compensating the Department in an amount computed by applying the percentage of participation in the cost of the original activity to the current appraised value of the property. The Department may permit the grantee to retain the compensation as program income and use it for eligible CDBG activities. The Department may permit the grantee to retain program income received from the disposition of real property subsequent to the closeout of the grant that funded its acquisition for reuse in any open CDBG

grant program. (See Chapter 14 on program income.)

2. The Department may direct the grantee to sell the property, using guidelines provided by the Department. In this case, the grantee must compensate the Department in an amount computed by applying the percentage of its participation in the cost of the original activity to the proceeds from the sale, after deducting actual and reasonable selling and fix -up expenses, if any, from the sales proceeds. When authorized or required to sell the property, follow a competitive process. The Department may authorize the grantee to retain the compensation as program income to be used for eligible CDBG activities. After closeout of the grant, the program income shall be treated as program income of any open State CDBG grant.
3. The Department may direct the grantee to transfer title of the property to the Department or a third party. In such cases, the grantee shall be entitled to compensation computed by applying the grantee's percentage of non -CDBG participation in the cost of the activity to the current appraised value of the property.

**Personal
property:**

Personal property may be expendable or nonexpendable. Personal property may be tangible, such as desks, chairs, and typewriters, or intangible, such as inventions, patents or copyrights. Following are the requirements for the use and disposition of equipment and supplies.

1. **Equipment.** Equipment is tangible personal property having a useful life of more than one year and an acquisition cost of \$5,000 or more per unit. The grantee may use its own definition as long as it includes, at minimum, these standards.

Title vests in the grantee as long as the property is used for the authorized purpose of the original grant. Gross income from the use or rental of personal property acquired with CDBG funds by the grantee or by a non -profit under contract to the grantee, less costs incidental to the generation of the income, is program income. All proceeds from the disposition of equipment purchased with CDBG funds are considered program income. All personal property not needed by the grantee for CDBG program activities shall be transferred to the State for use in another local government CDBG program or may be retained by the grantee after compensating the State CDBG program.

Disposition of equipment. When the grantee no longer needs the equipment, contact a State CDBG representative in writing for disposition instructions. The following options are available for disposition:

- a. Retain the equipment after compensating the Department in an amount computed by applying the percentage of its participation in the cost of the original activity to the current appraised value of the property. The

grantee may be permitted to retain the compensation as program income to be used for eligible CDBG activities. After grant close -out, the program income shall be treated as program income of any open State awarded CDBG grant, and, as such, shall be used to fund current CDBG activities.

- b. Sell the equipment using guidelines provided by the Department and compensate the Department in an amount computed by applying the percentage of its participation in the cost of the original activity to the proceeds from the sale. When authorized or required to sell the equipment, follow a competitive process. The Department may permit the grantee to retain the compensation as program income to be used for eligible CDBG activities.
- c. Transfer the equipment to the Department. In such cases, the grantee shall be entitled to compensation computed by applying its percentage of non-CDBG participation in the cost of the activity to the current appraised value of the property.

2. **Supplies.** Supplies are defined as all tangible personal property other than what is defined as equipment.

Disposition of supplies. If there is a residual inventory of unused properties exceeding \$5,000 in total aggregate fair market value upon termination or completion of the award, and if the supplies are not needed for any other federally sponsored program or project, the grantee or its contractor(s) shall compensate the State CDBG account for the grantee's or contractor(s) their proportional share. A description of the supplies and methodology for determining value must be submitted to the State.

Intangible property:

1. Inventions and patents. If patentable items, patent rights, processes, or inventions are produced by CDBG activities, the grantee shall notify the Department in writing. Unless there is a prior written agreement between the grantee and the Department regarding the disposition of such items, the Department may determine whether to seek patent protection for the invention or discovery. The Department may also determine how rights to the invention or discovery, including rights under any patent issued, shall be allocated and administered in order to protect the public interest.
2. Copyrights. Except as otherwise provided in the terms and conditions of the grant agreement, the grantee or the author are free to copyright any books, publications, or other materials produced by CDBG activities but the Department reserves a royalty-free, nonexclusive, and irrevocable right to reproduce, publish, or otherwise use, and to authorize others to reproduce, publish, or otherwise use the materials for State or federal purposes.

Control and inventory: State and federal regulations require the grantee to maintain effective control over and accountability for all property that is acquired in whole or in part with CDBG funds. In addition, the grantee must assure that it is used solely for authorized purposes. Following is a discussion of procedures for complying with these provisions.

1. Required recordkeeping and files. The maintenance of a property control register is an integral part of effective control over and accountability for all CDBG acquired property (see sample in Section VI of this chapter). A separate register should be maintained for real, personal and intangible properties. When such property is purchased with CDBG funds, enter the applicable data in the register using the steps described for the completion of the property control register. Amend the sample property register to provide additional information as necessary. For example, when CDBG funds are used to acquire real property, the grantee may want to record the previous owner of the parcel of land.

Using a sample property register meets the same objective as using a fixed asset ledger for purposes of complying with the recordkeeping requirements for CDBG-funded programs. All real, non-expendable, and intangible property acquisitions must be entered in their respective registers. A property register is required for long term supplies.

2. Control. All purchased property must be adequately controlled and safeguarded. For example, real property, such as buildings, should be protected by using reasonable security measures. Equipment and supplies, should be reasonably protected from possible theft. Intangible property, such as a patent or a copyright, should also be adequately safeguarded .

Supplies should be under the control of an authorized person who is responsible for receiving and issuing such materials. Certain expendable properties (e.g., lumber and other building materials) used on CDBG -funded projects for housing rehabilitation and street improvements should be controlled through a perpetual inventory system that provides:

- a) Records of receipt of goods, issuance of goods and balance of items on hand;
- b) Documentation of the person who authorized the issuance of goods;
- c) Documentation of the location, such as a house or project, where the goods were used; and
- d) The name of the individual who received the goods.

Short-term supplies, such as office supplies, do not need to be controlled through a perpetual inventory system, but must still be adequately safeguarded.

The local CDBG program manager should work out control procedures with the finance director, purchasing agent or person usually assigned responsibility for establishing a perpetual inventory system.

3. A physical inventory of property shall be taken and the results reconciled with the property records at least once every two years. Any difference between quantities determined by the physical inspection and those shown in the accounting records shall be investigated to determine the causes of the difference. The inventory shall include verification of the existence, current use and condition, and continued need for the property.

Common Problems

- Failure to adequately safeguard property
- Inventories are not prepared every two years
- Adequate property records are not maintained

Department's role:

Department staff will review the grantee's property management procedures when monitoring the grant. The Department will also review requests for property disposition as discussed above, and provide technical assistance or recommendations for recordkeeping systems. (See Chapter 7 for recordkeeping checklists for these topic areas.)

References:

State CDBG Regulations, Section 7118, provides uniform standards governing the utilization and disposition of property acquired in whole or in part with State CDBG funds. This section is essentially equivalent to 24 CFR 85.31 -85.33 of the HUD common rule.

Supporting materials:

- Property Register (Sample)

PROPERTY REGISTER(CDBG)

Contract No._

Description	ID Number	Who Holds Title	Acquisition Date	Purchase Order # Check #	Source(s) of Funds	Cost		% of CDBG Participation	Location used		Condition		Disposition		
						Per Unit	Total		Date	Description	Date	Description	Date	Amount	Description